



**Michigan House Energy and Technology Committee  
October 11, 2005**

**Testimony of Paul Fuglie  
Vice President – Government Affairs**

**Introduction**

My name is Paul Fuglie, VP – Government Affairs for Verizon Communications. I am a Michigan resident and I have responsibility for regulatory and legislative matters for Verizon in the state of Michigan and Wisconsin. I have 30 years of experience in the telecommunications industry and have so far worked in the CLEC, ILEC, and long distance sectors of the telecommunications industry.

**The 2005 Rewrite Has Been An Open and Inclusive Process**

First, I would like to thank Chairman Nofs and Vice Chairmen Proos and Accavitti for the manner in which the committee has approached this year's review of the Michigan Telecommunications Act. Similar to the Senate, the process so far has been open and inclusive. We appreciate the opportunity to provide our thoughts and comments, beginning with the Chairman's initial homework assignment several months ago.

**Quick Description of Verizon**

The landline portion of Verizon's business provides service to approximately 730,000 switched access lines in mostly rural parts of Michigan. 75% of these lines are residential customer. We operate in 58 of the state's 83 counties. 80% of our 195 exchanges have less than 5,000 access lines each. Verizon is unique in Michigan. While we may serve roughly the same geographic area as SBC in the lower Penninsula, we have only 1/5<sup>th</sup> the number of customers. Also, unlike SBC, most of Verizon's service area is rural and high cost, similar to the smaller TAM members. However; unlike the smaller TAM providers, Verizon does not receive any federal USF High cost subsidies in Michigan. In addition, when Verizon implemented the adjacent local calling areas required by the last rewrite, Verizon did not receive any additional cost recovery or local rate increases that some of the smaller ILECs did when they implemented these plans. It is important for the committee to know that Verizon's costs are recovered solely through the prices of the services we provide to our customers and not through other subsidy programs.

**Verizon Supports HB 5237 and the Direction it Takes**

HB 5237 starts with the correct premise that the telecommunications world has changed and will continue to change. Technology is the main driver of the new telecom marketplace. Internet and VOIP technology is dramatically changing aspects of our personal lives and forcing businesses to adapt their business models to either take advantage of new opportunities or to decide how to compete differently in order to assure their long term survival. No business is immune to these changes. Just ask Microsoft if

it just sits back and watches the world go by as Google enters and redefines its markets. Recently there have been articles about Google and E-Bay entering the voice market. Indeed, some pundits are saying Google could be the dominant communications company in the world in 5-7 years.

Cellphones, cable modems, cable telephony, VOIP, satellite, and broadband over powerlines are providing alternatives to traditional landline services. In this new age of intermodal convergence, cable TV companies are providing voice telephone services. Verizon is now entering the video marketplace in a number of states with our fiber-to-the-home service we call FIOS. Google and E-Bay are entering the business from a completely different direction. Verizon has seen the effects of this intermodal convergence at work. Verizon served over 800,000 switched access lines in April 2003. Sounds like a big number. But by August of this year, Verizon's lines were reduced by over 70,000 lines. These new alternatives are having an impact on Verizon in Michigan regardless of what other interest groups may be saying.

### **HB 5237 is a Balanced Approach**

- **It Lets Markets Work and Consumers Decide.**

Rather than the government and regulators trying to decide what is best for consumers in this rapidly changing world of technology, HB 5237 lets markets decide. More importantly, it lets consumers decide what bundles provided by what provider best meets their needs or represents the best value. In an environment where new technology is being introduced every week and new entrants are entering the field, it is impossible for government to know what is best for Michigan consumers.

- **It Retains Important Consumer Protections**

Having said that, the bill continues the MPSC's role as a watchdog for consumer interests in the areas of slamming, cramming, billing issues, and service quality for those companies that are still regulated. It also provides for a regulated basic service for those customers who only want a simple voice wireline telephone service. HB 5237 also retains MPSC oversight and involvement in disputes involving different providers, but in a manner that is consistent with Federal law.

- **It Lets Businesses Act as Businesses**

On a more fundamental level, HB 5237 moves away from the traditional mindset of treating wireline communication providers as public utilities and recognizes that companies like Verizon are high tech companies that are subject to the same challenges and constraints faced by any other business enterprise. In Verizon's opinion, this is an important change and reflects the fact that there are many competing platforms. The ability to make quick business decisions and to differentiate our services from our competitors will allow us the opportunity to compete more effectively, which will benefit Michigan consumers and the state's economy.

### Some Quick Suggestions or Observations

- **Verizon versus SBC Competition**

Verizon competes against SBC every day in the Enterprise, VOIP (voice Over Internet Protocol) and wireless markets. Verizon has made significant investments in these segments and sees them as the most cost effective means to compete against SBC and other competitors in this changing market place. These services are available in many markets where SBC provides service.

- **The Need for Due Process in the MPSC's Remedy Process**

Verizon supports the Commission's ability to promulgate rules intended to measure providers' performance required to meet customer expectations. However, Verizon believes very strongly that enforcement of these or any other measures should be done in accordance with due process as spelled out in Section 601 of the MTA. Commission enforcement action should not be automatic – no one should be punished without at least an opportunity for a review and finding related to their actions. This is a fundamental American principle.

This also affords providers the ability to differentiate service quality between their competitors and not be forced into treatment standards established by the Commission, a third party. However, if any provider fails to meet the standards of the Commission they are faced with the significant enforcement consequences allowed for by the Commission in a proceeding initiated utilizing Section 601.

- **Primary Basic Local Exchange Rate and Minimum Calls**

Verizon currently offers three different local options to residential customers. Approximately 10% of our customers take advantage of either the Value Pak-60 or the Econo Pak-0 plans. After considering actual customer usage of these plans, Verizon could support a minimum call element of 50 calls per month, based on the following simple analysis.

Type of Plan	Current Verizon Residential Rate	Customer Impact Assuming a 50 Call Minimum	Customer Impact Assuming a 100 Call Minimum
Unlimited	\$18.18	\$18.18	\$18.18
Value Pak-60	\$16.78 plus \$.04 per originating local calls over 60.	\$16.78	\$18.38
Econo Pak-0	\$14.65 plus \$.04 per all originating local calls	\$16.65	\$18.65

The advantage of the 50 call minimum is that a significant number of Verizon customers are already using a plan in this range. If the minimum call plan was raised to 100 or higher, customers would probably not choose it since it would be more economical to go with the unlimited plan at \$18.18 per month. A 50 call plan for Verizon would also avoid possible slamming issues since customers would have to choose one plan or another. Verizon cannot make this choice for them. Actual customer demand, at least in Verizon's area suggests a 50 call minimum would cause the least disruption to customers and still provide them with an option to move to a plan that works best for their situation without causing a perceived rate increase if a higher local call minimum was required in legislation.

- **Municipal and Educational Networks**

Verizon is deploying DSL in Michigan and Verizon Wireless recently deployed wireless broadband access in the Detroit Metro area. Public policy in Michigan should continue to rely heavily on the private sector to provide broadband. Contrary to one witness' testimony last week, the private sector has not failed Michigan. There is nothing wrong with a profit motive by the private sector that encourages economical broadband deployments that meet customer demand. In the past, government pricing policies resulted in rate subsidization that disrupted normal market processes by pricing business services higher than costs to subsidize residential rates. Going forward, public policies should ensure that old regulatory rules are not applied to new broadband technology. In addition, government broadband policies should focus on removing all regulatory barriers such as local municipal video franchise requirements that deter additional private investment in broadband networks.

Generally, Verizon is not opposed to a governmental unit operating a network for its own internal use. In addition, there may be situations involving high cost areas or very low population densities where some form of government partnership or involvement with the private sector may be necessary. However; policy makers should always insist on arrangements that are open, transparent, and competitively neutral.

If needed, public-private partnerships are preferable to taxpayer-funded networks. However; whenever the public sector seeks to provide these types of services, at a minimum there should be some meaningful, independent technical review and economic study to assess whether municipal involvement is justified. Such studies could determine the true and more importantly the total costs involved in deploying and operating a network. The technical feasibility of a project could also be reviewed to determine its long term chances for success. In Verizon's opinion, such a requirement will provide the public with necessary input and knowledge of a project before it gets too far down the road. This would also reduce the financial risk for Michigan taxpayers, and maximize the potential for privately funded broadband deployments that compete against other private sector deployments.

- **EUCL Elimination and Competitive Neutrality**

The proposed language in Section 310(7) and (8) regarding elimination of the EUCL charge would only apply to providers with more than 250,000 customers. Many of the small ILEC providers have already rolled their EUCL rate into their local rates. However; CLECs with fewer than 250,000 customers could potentially elect not to move any intrastate EUCL charge into their local rates. They could then continue to receive the EUCL revenue and be able to advertise a local rate that would be lower than a provider that has rolled its EUCL rate into local rates. Customers may respond to a lower advertised rate and yet end up paying more than another provider. To avoid a situation such as this, Verizon suggests placing the EUCL language into a separate Section 310a, which would apply to all providers. This will allow consumers to compare various service plans and rates on an apples-to-apples basis and avoid customer confusion.

**Survival Requires Change**

History has proven time and again that any business or organization that does not adapt itself to a changing environment fails. It may not be an immediate death. It could take years, but the result is the same. Who here needs a buggy whip today? And it were not for the Government stepping in to preserve passenger train travel, the mode of travel would also only be studied in history textbooks. However; early on Verizon saw the changes developing in communications, and its planning and investments are being made with the long term in mind. Our investments in wireless technology and fiber to the home are a long term strategies to remain a leader in the telecommunications industry. The other basic business reality is that any success in business today only guarantees new challenges and opportunities tomorrow. – success is never guaranteed. Anyone who has owned or operated a business knows that. This new converged telecommunications marketplace is no different.

**Closing**

Thank you, Mr. Chairman and members of the committee for the opportunity to express our views on this important bill. I look forward to working with you as the bill moves through the process.